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Public Economy League,  
London

Britain's financial position

London

1938



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# BRITAIN'S FINANCIAL POSITION

SIR JOHN SIMON'S BUDGET

THE DANGERS OF VAST STATE  
EXPENDITURE

RAPID GROWTH OF DEBT AND TAXATION  
TO RECORD HEIGHTS

ISSUED BY

THE PUBLIC ECONOMY LEAGUE  
21 Essex Street, Strand, London, W.C.2

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## PREFACE

THE Budget introduced on April 26th, 1938, provided for the vast total of State Expenditure of over £1,100 millions—a sum never before reached, except in times of war or immediately after a war. The total is made up as follows :

	£ millions
Ordinary expenditure, to be met out of Revenue	944·4
Armaments expenditure met by loans .. ..	90·0
Post Office, including Broadcasting .. ..	80·4
	<hr/>
	1,114·8

This expenditure represents nearly £100 a year, averaging nearly £2 a week, for every family in Great Britain. The magnitude of these figures justifies a close examination of our financial position, and a reiteration of the pleas put forward by the Public Economy League for a more stringent control of the national finances.

The Post Office expenditure is self-balancing, but it needs watching like the rest.

The country is now faced by lavish expenditure, declining trade, rapidly rising debt and a growth of taxation which imposes intolerable burdens on industry, commerce and private budgets.

Happily the Public Economy League has not laboured in vain. Our arguments and statistics, addressed especially to Conservative and Liberal Members of Parliament, have produced an impression. Captain Balfour's Resolution and its acceptance by the Government are recorded on a later page; and since this pamphlet went to the printers the Independent Liberal Party, at its Annual Meeting in Bath, has passed unanimously the following resolution:—

“In view of the heavy and ever growing burdens of both direct and indirect taxation, and the alarming increase in our



dead-weight debt, largely consequent upon the necessity for re-armament, this Assembly of the Liberal Party urges that a special Committee be immediately appointed by the Government to examine and overhaul the finances of all the spending departments in order to ensure public economy and to stop the waste of public money."

Let us hope that the House of Commons and the Treasury will now take action.

On the design of the new threepenny bit you may see a little flower called Thrift. It is still found in some parts of the country. In Gladstone's time it flourished at the Treasury and even in Parliament. I wish it, with its sister Economy, could be made to grow again at Westminster and in Whitehall.

F. W. H.

London, *June* 1938.

## BRITAIN'S FINANCIAL POSITION

THE sharp increases of taxation imposed in Sir John Simon's first Budget, and his Financial Statement, should serve as nothing else can do to bring home to the House of Commons and to the nation as a whole the results of extravagance. It is useless to acquiesce all the year round in every proposal involving increased expenditure, and even to urge new costly schemes upon the Government, and then to protest against increased taxation. The right time to protest is when new expenditure is being proposed. Every Estimate should be jealously scrutinised, and every Department should be compelled to justify up to the hilt any proposed expansion of its work and cost.

Sir John Simon made no attempt to disguise the position or to minimise "the very formidable total" which expenditure has reached, and he warned Parliament that next year's total would be higher still, owing to the fact that the cost of re-armament is to be still further increased. Even during the current year, the £343 millions provided for defence (or offence) is not likely to be sufficient.

"This means," he said, "that we must expect to have Supplementary Estimates for defence later on in this year of substantial amounts, which are not included and are not provided for in the total expenditure against which I am now providing. When these Supplementary Estimates come along this year for further defence expenditure I intend that they shall be met out of loan money, by further drawings on the fund provided under the Defence Loans Act, and this, therefore, will be a further amount which will not be provided for in the revenue of the current year."

On last year's budget, if we ignore £65 millions of armaments expenditure met by loan, there was a surplus of £29 millions,<sup>1</sup> due, as the Chancellor pointed out, to three causes, revenue above expectation, lower cost of unemployment assistance, and smaller demands for supplementary expenditure than had been allowed for. But for 1938-39, after allowing for £90 millions to be met by defence loans, there was still a prospective deficit of £30

<sup>1</sup> The real deficit was about £37 millions.



millions. This gap has been bridged by an increase of 6d. in the £ on the income tax, making a standard rate of 5s. 6d. (without, however, raising the tax for 2,000,000 small taxpayers, and with relief to industry through increased allowance for wear and tear of machinery and plant); by an increase of 1d. a gallon on petrol, making a total of 9d.; and by an additional 2d. a lb. on tea, making the tax 8d. on foreign tea and 6d. on Empire tea.

The following table shows for all the main items of expenditure, the estimates and actual payments last year, and the estimates for this year.

## EXPENDITURE

	1937-38 Estimates £ millions	1937-38 Payments £ millions	1938-39 Estimates £ millions
Consolidated Fund :			
National Debt interest, etc. .. .. .	224.0	216.2	230.0
Other .. .. .	11.5	12.0	12.1
	<u>235.5</u>	<u>228.2</u>	<u>242.1</u>
Supply Services :			
Army .. .. .	63.7	63.0	86.0
Navy .. .. .	78.0	77.9	93.7
Air .. .. .	56.5	56.3	73.5
Defence Total ..	<u>198.2</u>	<u>197.2</u>	<u>253.2</u>
Civil Services .. ..	405.2	394.1	424.8
Supplementary Estimate	10.0	—	10.0
Customs, Excise and Inland Revenue ..	13.9	13.7	14.3
Total Supply ..	<u>627.3</u>	<u>605.0</u>	<u>702.3</u>
Sinking Funds .. ..	—	10.6	—
Total, Ordinary ..	<u>862.8</u>	<u>843.8</u>	<u>944.4</u>
Post Office and Broad- casting .. .. .	75.2	76.1	80.4
Total Expenditure	<u>938.0</u>	<u>919.0</u>	<u>1,024.8</u>

The Defence figures given above do not include the amounts met from issues under the Defence Loans Act, 1937, which are as follows :

	1937-38 Estimates £ millions	1937-38 Payments £ millions	1938-39 Estimates £ millions
Army .. .. .	27	15	21
Navy .. .. .	27	24	30
Air .. .. .	26	26	39
	<u>80</u>	<u>65</u>	<u>90</u>

The details concerning the revenue are shown in the next table.

## REVENUE

	1937-38 Estimates £ millions	1937-38 Receipts £ millions	1938-39 Estimates £ millions
Inland Revenue :			
Income Tax .. ..	288.2	298.0	341.3
Sur-tax .. .. .	58.0	57.1	62.0
Death Duties .. ..	89.0	89.0	88.0
Stamp Duties .. ..	29.0	24.1	24.0
Nat. Defence Contrib.	2.0	1.4	20.0
Other .. .. .	1.5	1.7	1.2
	<u>467.7</u>	<u>471.3</u>	<u>536.5</u>
Customs .. .. .	219.8	221.6	227.9
Excise .. .. .	113.2	113.7	116.2
	<u>333.0</u>	<u>335.3</u>	<u>344.1</u>
Motor Vehicle Duties ..	34.0	34.6	36.0
Total from Taxes	<u>834.7</u>	<u>841.2</u>	<u>916.6</u>

(continued overleaf)



	1937-38 Estimates £ millions	1937-38 Receipts £ millions	1938-9 Estimates £ millions
Miscellaneous .. ..	28.4	31.4	28.2
Total, Ordinary ..	863.1	872.6	944.8
Post Office and Broad- casting .. ..	75.2	76.1	80.4
Total Revenue ..	938.3	948.7	1,025.2

With the income tax within 6d. of its maximum at the end of the Great War, and with a declining revenue already in prospect ("the first six months of the year were more prosperous than the second six months," said the Chancellor) and with the Budget already unbalanced to the extent of £90 millions, it is clear that steps must be taken to stop the rising torrent of expenditure. We would reinforce the excellent suggestion made by Sir Archibald Sinclair in the House of Commons on April 27th. He said:

"Soon, if things are allowed to drift in the fashion that has been characteristic of the present Government's policy in many spheres, there will be a panic demand for a committee of hard-faced business men to cut down expenditure ruthlessly, and the social services will again be in danger. If we are to protect the social services and save the taxpayers from burdens of taxation which are even more crushing than those which they are now carrying, we ought to act now and initiate a careful and objective inquiry into present expenditure and, looking several years ahead, into the means of keeping up our present and prospective revenue without detriment either to the needs of national defence or of the social services."

He suggested as a precedent the Committee on National Expenditure during the War, of which Lord (then Sir Herbert) Samuel was chairman. "That committee saved the country millions of pounds, and high tribute was paid to its work in this House by Mr. Bonar Law and Sir Austen Chamberlain on 29th

January, 1918. Let the Government act now, for there could be no stronger antidote to the inevitably depressing effect of the present Budget on business and enterprise than the assurance to the taxpayer that this House is effectively grappling with the problem of increasing expenditure."

#### THE GROWTH OF EXPENDITURE

In 1913-14, despite the high level of expenditure on armaments (then unprecedented in peace time) and the new extensions of the social services, State expenditure was under £200 millions. In the later stages of the war, this figure rose to over £3,000 millions a year. Then the total gradually fell to £790 millions in 1924-25, when the late Lord Snowden (then Mr. Snowden) was Chancellor of the Exchequer. This was the lowest total after the war, and during Mr. Churchill's Chancellorship the figure rose to £829 millions in 1929-30. The subsequent course of expenditure is set out below.

The first column in the following table shows the "ordinary" expenditure met from revenue, and is taken from the official Financial Statement; the second column includes the "self-balancing" items of the Road Fund and the Post Office, which were excluded from the ordinary totals when Mr. Churchill "reformed" the accounts in 1928. Last year, however, Mr. Chamberlain restored expenditure on roads to the "ordinary" total.

	Ordinary Expenditure £ millions	Total (inc. self- balancing) £ millions
1913-14 .. ..	169.5	197.5
1929-30 .. ..	749.6	829.5
1930-31 .. ..	796.0	881.0
1931-32 .. ..	772.0	851.1
1932-33 .. ..	777.4	859.3
1933-34 .. ..	692.8	772.2

(continued overleaf)



		Ordinary Expenditure £ millions	Total (inc. self- balancing) £ millions
1934-35	.. ..	708.9	797.0
1935-36	.. ..	750.0	841.8
1936-37	.. ..	802.9	902.2
1937-38	.. ..	843.8 (a)	919.9
1938-39 (est.)	.. ..	944.4 (a)	1,024.8

(a) In these two years, Road Fund expenditure, amounting to over £20 millions, is included.

In addition, sums were borrowed for unemployment payments in 1929-30, 1930-31, and 1931-32, and for the defence services in 1937-38 and 1938-39. The amounts borrowed, and the total expenditure, including that met by these loans, were as follows :

		Amounts borrowed £ millions	Total spent, inc. borrowings £ millions
1929-30	.. ..	3.0	832.5
1930-31	.. ..	36.4	917.4
1931-32	.. ..	39.6	890.7
1932-33	.. ..	—	859.3
1933-34	.. ..	—	772.2
1934-35	.. ..	—	797.0
1935-36	.. ..	—	841.8
1936-37	.. ..	—	902.2
1937-38	.. ..	64.9	984.8
1938-39 (est.)	.. ..	90.0	1,114.8

The borrowings mentioned above are not the only increases of national indebtedness, as loans for the Exchange Equalisation Account, increased liability for Savings Certificates, etc., have also to be taken into account. The total "dead-weight" debt before the war and in the last ten years is shown in the following table:

					National Debt £ millions
March 31st					
1914	.. ..	.. ..	.. ..	.. ..	650
1929	.. ..	.. ..	.. ..	.. ..	7,500
1930	.. ..	.. ..	.. ..	.. ..	7,469
1931	.. ..	.. ..	.. ..	.. ..	7,413
1932	.. ..	.. ..	.. ..	.. ..	7,434
1933	.. ..	.. ..	.. ..	.. ..	7,644
1934	.. ..	.. ..	.. ..	.. ..	7,822
1935	.. ..	.. ..	.. ..	.. ..	7,800
1936	.. ..	.. ..	.. ..	.. ..	7,796
1937	.. ..	.. ..	.. ..	.. ..	7,797
1938	.. ..	.. ..	.. ..	.. ..	8,026

The latest total is the highest ever known in the history of the country.

#### ALL-ROUND INCREASES

The great increase of expenditure, especially during the past three years, is largely attributable to re-armament, but other branches of administration have also contributed their share. The relevant statistics are given below.

In regard to armaments, it may be useful to recall briefly the history of expenditure previous to the enormous additions provided in the last three Budgets. In the six years, 1930-31 to 1935-36, which are now referred to as years of unilateral disarmament, no less than £679 millions was spent upon the three defence services, an average of £113 millions a year. This compares with £77 millions in 1913-14, when the expenditure was raised to unprecedented heights owing to the growth of the German Navy and the division of Europe into two hostile camps. Hence the talk of unilateral disarmament by Britain, between 1930 and 1935, indicates ignorance of the facts. If, as is sometimes alleged, our defences were in a woefully inadequate state, the cause must have been gross inefficiency in the



Services and among the Ministers and officials responsible for the expenditure of the immense sums voted by Parliament. In 1936-37, armaments expenditure rose by nearly £50 millions, and in February 1937, came the White Paper (Cmd. 5374) which envisaged an expenditure during the next five years of £1,500 millions, of which £400 millions was to be met by borrowing. In March 1938, a further White Paper (Cmd. 5682) was issued, announcing that it must now be anticipated that even this sum would be exceeded; and on March 7th, Mr. Chamberlain told the House of Commons to expect "a substantial advance upon it."

Comparative figures of total expenditure (including the amounts met by loan) are given in the following table:

	Navy £ millions	Army £ millions	Air Force £ millions	Total £ millions
1929-30 ..	55.7	40.5	16.8	113.0
1930-31 ..	52.6	40.2	17.8	110.6
1931-32 ..	51.1	38.5	17.7	107.3
1932-33 ..	50.0	35.9	17.1	103.0
1933-34 ..	53.5	37.6	16.8	107.9
1934-35 ..	56.6	39.7	17.6	113.9
1935-36 ..	64.8	44.6	27.5	136.9
1936-37 ..	81.1	54.9	50.1	186.1
1937-38 ..	101.9	77.9	82.3	262.1
1938-39 (est.)	123.7	106.5	113.0	343.2

In addition, over £5 millions were spent on Air Raid Precautions in 1937-38, and the estimate for 1938-39 is £8.5 millions.

Whether this vast and still increasing expenditure on preparations for another Armageddon can be justified by foreign dangers, raises questions<sup>1</sup> which are outside the scope of this pamphlet. Even if it be admitted, however, that in present circumstances the expenditure of £343,000,000 or more on armaments is a regrettable

<sup>1</sup> e.g. Could it have been avoided, and could it now be avoided by a more conciliatory foreign policy or by reverting to the Open Door?

necessity, parliament should at least insist that full value is obtained for the money. Those who observe the rapidly growing costs at the dockyards and arsenals, the extravagance of the Air Service and the soaring profits of the private armaments firms, may well doubt whether due regard is being paid to the interests of the taxpayers, and whether financial control of this branch of expenditure has not been relaxed.

We turn now to the other two main branches of expenditure—the Debt and the Civil Services. The former is the only branch that shows a reduction, but this is not an "economy" in the same sense as a decrease of other forms of expenditure would be. Successful conversions of public debt are highly satisfactory, and the lowering of interest relieves taxpayers. But the investors suffer. Taking the realised figures of each year's Budget (which do not, however, take into account all the factors concerning the nation's capital position), the provision for the Debt has been reduced from £355 millions a year to £230 millions in the period under review. The reduction is due to three causes:

1. Payments to America amounted to £33 millions until 1931; in 1932, owing to the Hoover Moratorium, only £13.6 millions was paid; in December 1932, the normal payment then due was paid, amounting in sterling to £29 millions owing to the depreciation of the £; in 1933, two token payments were made, aggregating £3.3 millions; and in June 1934, the British Government announced the total suspension of payments, pending a final settlement.

2. In the autumn of 1932, £2,080 millions of War Debt was converted from a 5 to a 3½ per cent basis, saving about £30 millions a year. Other reductions have since been caused by minor conversion schemes, and by lower charges for floating debt.

3. The Sinking Fund was reduced in September 1931 to £32.5 millions, and abolished in 1933, except in so far as the Fixed Debt Charge of £224 millions (or £230 millions for 1938-39), may exceed the current charges for interest and management.

The details are shown in the following table:



	Interest, etc.	Sinking Fund	Total	Budget Surplus (+) or Deficit (-)
	£ millions	£ millions	£ millions	£ millions
1929-30 ..	307.3	47.7	355.0	-14.5
1930-31 ..	293.2	66.8	360.0	-23.3
1931-32 ..	289.5	32.5	322.0	+ 0.3
1932-33 ..	282.2	26.3	308.5	-32.3
1933-34 ..	216.2	7.8	224.0	+31.1
1934-35 ..	211.7	12.3	224.0	+ 7.6
1935-36 ..	211.5	12.5	224.0	+ 2.9
1936-37 ..	210.9	13.1	224.0	- 5.6
1937-38 ..	216.2	10.5	226.7	+28.8(a)
1938-39 (est.)	230.0	—	230.0	+ 0.3 (a)

(a) Nominal surplus, excluding the Defence Loans.

The figures for the Civil and Revenue Departments are given in the next table. The expenditure on the Post Office and Road Fund is shown separately because these items are sometimes omitted as "self-balancing." Only Budgetary figures (and not items met by borrowing) are here included :

	Services, excluding Post Office and Road Fund	Post Office	Road Fund	Total Civil and Revenue
	£ millions	£ millions	£ millions	£ millions
1929-30 ..	258.6	58.9	21.9	339.4
1930-31 ..	319.3	59.0	22.9	401.2
1931-32 ..	331.9	58.0	22.5	412.4
1932-33 ..	355.3	59.3	22.9	437.5
1933-34 ..	350.8	59.3	25.5	435.6
1934-35 ..	358.3	61.8	26.4	446.5
1935-36 ..	375.1	66.0	25.8	466.9
1936-37 ..	381.2	71.9	27.4	480.5
1937-38 ..	407.8	76.1	(a)	483.9
1938-39 (est.)	449.0	80.4	(a)	529.4

(a) In the last two years Road Fund expenditure has not been stated separately, but is included in the first column.

## COMPARISON WITH 1932

The National Government was originally formed in 1931 in order to economise and balance the Budget; and in the autumn of that year the late Lord Snowden drastically reduced expenditure, increased taxation, and laid the plans for Debt conversion which were carried out by his successor, Mr. Neville Chamberlain, in 1932. The Budget of 1932, the first ordinary Budget under the National Government, provided for a total expenditure of £848 millions. Despite a reduction of nearly £80 millions for the Debt Services since then, the total Estimates for 1938 show an increase compared with 1932 of £267 millions.

The following table shows the principal items of expenditure in both years. For the sake of accurate comparison, we take the original net Estimates in each case :

	1932 £ millions	1938 £ millions
National Debt and other Consolidated Fund		
Services .. .. .	286	242
Sinking Fund .. .. .	33	—
Defence Services .. .. .	104	343
Civil and Revenue Departments (including Roads) .. .. .	366	449
Post Office, including Broadcasting .. .. .	59	80
Total .. .. .	848	1,114

It is true that the greater part of this increase is due to re-armament, but it should also be observed that the Civil Departments, including the Post Office, show an increase of no less than £104 millions in the six years.

This large increase in civil expenditure—equal in magnitude to half our total pre-war expenditure—must give rise to concern. It cannot be justified on the ground that it is due to increased Social Services; for after 1932, and until the summer of 1937, there was a considerable diminution in the number of persons unemployed as well



as an automatic reduction in the cost of war pensions ; and in any case, the Social Services account for only about half of the Civil Service expenditure. Nor should the necessity for economy even in the Social Services be overlooked ; for waste may occur in them as in any other branch of the services. Without seeking to diminish the benefits received by those who deserve and need them, one may nevertheless insist that a watchful eye shall be kept upon administrative costs, in order to avoid extravagance and leakage. The significant fact is that (as will be shown by examples below) over the whole range of the Civil Services, nearly all the Departments are allowed year by year to spend larger and larger sums ; and in a time of financial strain and excessive taxation, many of these increases are utterly unjustifiable.

The number of Civil Servants has, of course, increased correspondingly, and this fact provides further evidence that new activities, which can ill be afforded, have been undertaken by many Departments. Taking the figures for April 1st, 1937 (the latest date available), compared with those for April 1st, 1932, there is a total increase of over 40,000 in the number of persons employed by Government Departments. These figures (taken from Cmd. 4094 of 1932 and Cmd. 5543 of 1937) relate to civil staffs only ; they exclude industrial staffs, and all persons engaged outside this country. The following table shows the comparisons between the two years :

	1932	1937
Civil Departments .. .. .	70,964	84,785
Defence Departments .. .. .	12,916	18,924
Post Office and Revenue Departments	232,349	252,630
	<u>316,229</u>	<u>356,339</u>

It will be seen that each group of Departments has contributed to the increase. It may be said that the increase of postal business and the greater activities due to re-armament help to account for the swollen staffs in the Revenue and Defence services ; but the increase of

20 per cent in the staffs of the Civil Departments within five years cannot easily be explained. Let us examine the figures in more detail :

Civil Departments		1932	1937
I. Central Government and Finance ..	..	2,415	3,406
II. Imperial and Foreign .. .. .	..	2,027	1,902
III. Home Department, Law and Justice ..	..	10,436	11,962
IV. Education and Museums .. .. .	..	3,174	3,500
V. Health, Labour and Insurance :			
Min. of Health (Eng. and Wales) ..	..	6,190	6,454
Dept. of Health (Scotland) .. .. .	..	831	858
Ministry of Labour .. .. .	..	24,403	25,165
Unemployment Assistance Board ..	..	—	7,643
Other Depts. in Group V .. .. .	..	1,986	1,683
VI. Trade and Industry :			
Board of Trade .. .. .	..	4,302	4,396
Min. of Agriculture and Fisheries ..	..	2,517	3,567
Other Depts. in Group VI .. .. .	..	4,030	6,156
VII. Common Services .. .. .	..	4,120	4,870
VIII. Ministry of Pensions .. .. .	..	4,533	3,223
Total .. .. .	..	<u>70,964</u>	<u>84,785</u>

As in the case of expenditure, the increase is general throughout the Departments. Central Government and Finance head the list with an increase of 40 per cent. Indeed, the only groups that show a decrease are the Ministry of Pensions (the work of which is rapidly diminishing) and the Imperial and Foreign Departments. The work of the Unemployment Assistance Board is to some extent a transfer from local government service.

Judging by the figures already published, there will be a very considerable further increase in the total for 1938.

#### GROWTH OF CIVIL DEPARTMENTS

In a pamphlet issued by the Public Economy League in 1937, attention was drawn to some remarkable instances of increased Estimates for that year compared with 1936. Instead of showing some reduction in 1938, the increases this year are in many cases even more striking. Thus the



Ministry of Agriculture, which used to be a comparatively small spending Department, advanced from £2,270,000 in 1936 to £2,360,000 in 1937 and to £3,440,000 in 1938 (exclusive of subsidies). The Ministry of Transport rose from about £100,000 in 1936 to £270,000 in 1937, but its appetite for expenditure grew even further by 1938, when it received an allowance of over £383,000. £96,000 sufficed for Royal Palaces in 1936, but £139,000 was allotted to them in 1938; and Parks and Pleasure Grounds also shared in the same policy of generous expansion. In the estimates for Public Buildings, whether at home or overseas, the notion of economy is even further away—the Exchequer is generous all round in these spacious days of public extravagance. Even the bill for Printing and Stationery has been allowed to surpass previous records; for it soared from the already high figure of £1,600,000 in 1936 to £1,900,000 in 1937, and to £2,500,000 in 1938.

The precise figures for these and other Departments are given in the following table, which consists of original Budget estimates in each case, so that like may be compared with like :

Service	Original Estimates		
	1936-37 £	1937-38 £	1938-39 £
Treasury and Subordinate Departments .. ..	348,851	374,016	389,629
Exchequer and Audit Dept. .. ..	139,954	141,983	148,065
Secret Service .. ..	250,000	350,000	450,000
Colonial & Mid. E. Services .. ..	773,293	1,035,167	1,892,255
Overseas Settlement .. ..	18,475	39,250	43,075
Scottish Office .. ..	98,551	139,901	223,321
Approved Schools .. ..	330,250	416,450	550,850
Board of Education .. ..	47,623,726	49,361,959	51,002,330
Ministry of Health .. ..	21,628,150	22,093,846	22,732,572
Old Age Pensions .. ..	44,321,000	45,319,000	47,717,000
Widows', etc. Pensions .. ..	15,000,000	16,000,000	17,000,000
Special Areas Fund .. ..	3,000,000	3,500,000	7,500,000
Ministry of Transport .. ..	101,152	272,942	383,530
Board of Trade .. ..	259,940	307,532	320,444

Service	Original Estimates		
	1936-37 £	1937-38 £	1938-39 £
Ministry of Agriculture .. ..	2,277,878	2,367,051	3,443,778 <sup>1</sup>
Surveys of Great Britain .. ..	271,820	378,875	390,337
Public Buildings, Great Britain .. ..	1,294,995	1,693,680	2,072,265
Public Buildings, Overseas .. ..	127,840	181,720	236,185
Royal Palaces .. ..	95,964	124,160	139,100
Royal Parks and Pleasure Gardens .. ..	201,255	226,040	229,390
Stationery and Printing .. ..	1,622,859	1,961,981	2,510,082
Import Duties Advisory Committee .. ..	59,014	60,829	63,455
Customs and Excise .. ..	5,837,100	5,973,100	6,065,200
Inland Revenue .. ..	7,654,700	7,923,500	8,219,500
Post Office .. ..	69,344,000	72,328,000	76,802,000

Many other similar examples could be given. In the majority of cases, the increase of expenditure (and of staff) is officially justified by the fact that the Departments have undertaken new functions. It is not suggested that the Civil Servants are inefficient or over-paid; on the contrary, the majority of them are conscientious men and women, who try to earn their salaries. But the question is whether the work they are doing need be done or ought to be done at all. Many of the new Boards (such as the Milk Board and the Potato Board) are mischievous superfluities. Foolish legislation adding to the duties of the Civil Service is constantly being passed; and administrative action by fussy Ministers or bureaucrats multiplies the functionaries who feed upon the Exchequer.

It is, in fact, impossible to excuse or justify the enormous and accelerating growth of expenditure. Few of the extensions of bureaucracy are essential to the well-being of the nation, and we could do without most of them just as well as we did before, and with some of

<sup>1</sup> These figures do not include the agricultural subsidies of which the direct Budgetary cost is estimated at £8,897,438 for 1938-39 (in addition to the charges borne by the consumers under the Wheat Act, etc.).



them far better. If, with a few justifiable exceptions, the Civil Service would revert to the limits of ten years ago, and if that change were accompanied by a reduction of the taxes on income and consumption, we should have more freedom, more trade and more of the comforts of life.

#### LOCAL EXPENDITURE

Since a large proportion of local expenditure is met by grants from the Exchequer, i.e. from the taxpayers, the actual burden of local expenditure is best measured by the figures of rates collected, "which over a series of years represent very closely the expenditure falling on rates" (Cmd. 103, 1938). The following are the figures :

			£
1927-28 .. ..	..	..	188,380,000
1928-29 .. ..	..	..	188,389,000
1929-30 .. ..	..	..	175,728,000
1930-31 .. ..	..	..	168,250,000
1931-32 .. ..	..	..	165,168,000
1932-33 .. ..	..	..	163,678,000
1933-34 .. ..	..	..	167,007,000
1934-35 .. ..	..	..	173,756,000
1935-36 .. ..	..	..	184,125,000
1936-37 .. ..	..	..	191,812,000
1937-38 .. ..	..	..	196,518,000

The decrease that began in 1930 was consequent upon the grants made under the Local Government Acts, which cost the State £31,000,000 a year. When this great addition was made to the National expenditure, it was claimed that it was merely a transfer from local expenditure, and that the ratepayers would gain what the taxpayers lost. But critics who prophesied that the local authorities would soon find new ways of spending money, and that the rates would soon be back at their old level, have been abundantly justified. In 1932-33, the figure for rates was £25,000,000 below that of 1928-29, but four years later the previous maximum was surpassed. Moreover, local expenditure is now growing at a reckless pace, unknown in the past.

The total expenditure of the local authorities—out of rates, exchequer grants, receipts from special services and loans—is approximately £500 millions a year. Their net outstanding loan debt has risen to £1,500 millions, and is being added to at the rate of £100 millions a year.

To a large extent, the expenditure of the local councils is determined by legislation, and the Central Government must bear a considerable share of the responsibility for their vastly increased spending. In many cases a local authority is bribed by Whitehall to spend more, sometimes to waste more. For example, the estimates of the London County Council for 1938-39 aggregate £35,000,000, and the ratepayers are asked to provide £2,000,000 more than in the previous year. The rate is increased by 6*d.* in the £, making a total of 7*s.* 9½*d.* Of this total, the following items may be noted as being very largely determined by State action :

			s.	d.
Education .. ..	..	..	2	7
Health Services ..	..	..	2	2
Public Assistance ..	..	..	1	11½
Roads and Bridges ..	..	..		3½
Total .. ..	..	..	7	0

Government Departments are not only extravagant with their own expenditure, but by their influence the local authorities become infected with the same spirit of prodigality. They act on the Baconian maxim that (public) money is like muck ; it wants spreading.

#### THE HOUSE OF COMMONS RESOLUTION

Many warnings concerning the country's financial position have lately been heard. On the motion of Captain Harold Balfour, the House of Commons passed the following resolution on February 8th, 1938 :



"That this House, while recognising the great measure of economic recovery and social progress achieved during the last five years and the exceptional expenditure entailed by the necessity for re-armament, views with concern the continued growth of expenditure by the central Government and by local authorities, and is of opinion that His Majesty's Government should do everything in their power to lighten the burdens imposed upon all classes of taxpayers and ratepayers."

The Government accepted the motion and, two months later, added sixpence to the income tax, twopence to tea and a penny to petrol.

Captain Balfour said that one found "an increasing body of well-informed and authoritative opinion, of all political views, which regards with gravity the present and prospective financial outlook." State expenditure was five times greater than it was in pre-war days, and local expenditure three times; the National Debt had increased twelvefold, and local debts threefold; but the population that carried these burdens had increased by only one-tenth. Before the war, our capital debt was one-third of the national income, but now it was double our income. Captain Balfour added:

"In order to raise this terrific, this colossal sum, direct taxation is standing at a war-time level, but the estimate of Sur-tax for 1937-38 is taken on a lower figure than it was in 1928-29. I think that is a clear sign that what has been often stressed by Ministers is commencing to operate, namely, that there comes a time in all forms of taxation when the law of diminishing yields commences to operate....

"The serious aspect of the present position is the lack of taxable resources in this country as between the maximum to be extracted from the taxpayers and the sum which it is planned shall be spent annually. I hesitate to think where would be the reserve of taxation suppose that this country were involved in a war, never mind what caused the war, or how the circumstances arose. If we had to face the gigantic expenditure which we had to meet between 1914 and 1918, I hesitate to think, with direct and indirect taxation at their present level, how we should be able to finance hostilities on any vast scale for very long....

"There is an increase, it is true, in the total turnover of our domestic trade, but our flocks and herds are about the same as before the War. Our agricultural land is rather less. The money

volume of our foreign trade in 1937 has recovered, after the slump, to only approximately its pre-war level, while the visible excess of imports over exports which was in the neighbourhood of £3 per head in 1913, has averaged between £5 and £10 per head ever since. The tonnage of our merchant fleet to-day is about 15 per cent less than in pre-war days and our foreign investments, as is generally known, are less productive and less valuable....

"As we have no cushion between the taxes levied and the taxable capacity at the present time, it will need but a comparatively small trade depression, and not a world slump, for us to be faced in this country with the fact that taxation will not meet the level of expenditure."

On behalf of the Government, a reassuring reply was given by Lieut.-Col. Colville, Financial Secretary to the Treasury, who said that, "Any call for economy is like music in the ears of a Treasury Minister." He concluded:

"The Government are alive to the necessity of maintaining the sound financial position of the country in the interests of everyone in the community, not least in the interests of the many millions who derive such immense benefits from the social services. I hope the House will pass this Motion, and I hope it will have wide publicity, because I believe that not only in the House, but in the country, it will have the effect of bringing a rather more realistic attitude to bear upon what in these days is the heaviest task the Government have to shoulder, namely, the wise stewardship of the nation's finances."

#### MR. RONALD WALKER ON GOVERNMENT WASTE

Addressing a meeting organised jointly by the Public Economy League and the Cobden Club in London, on March 23rd, 1938, Mr. Ronald Walker, a well-known Yorkshire woollen manufacturer, described the reasons that led him to fear that whenever Government action was extended, there would be waste.

"This can be best illustrated," he said, "by examples from my own experience as an employer, and from one or two experiences in Government service, all extremely recent, that I have learned from my personal friends. These examples illustrate vividly the very natural consequences that follow from the psychological



difference between wasting or saving one's own money and wasting or saving somebody else's.

"The first experience concerns a worker of my own, who, coming into a piece-work job, insisted upon being paid by time. Knowing him to be a man of very high character I made the arrangement he desired, but after a few weeks I called his attention to the fact that he was earning more than he was receiving. Since he still refused to accept piece rates, I informed him that while his regular wage would continue he would also be paid each week whatever extra he earned. He replied that it would make no difference; but when I met him a few weeks later I had to point out that his output had risen 15 per cent. He was embarrassed and annoyed, exclaiming, 'I cannot understand it.' Yet the explanation was simple. Every stroke of work that he did had more meaning for him when he knew he was being paid for it, and when he realised that it meant boots for his children or some little luxury for the home, than when it implied abstract duty *only*—it still implied abstract duty also—and he did more work without knowing it.

"Contrast that with the experience of three of my friends. The first sent a nephew into the War Office. When I asked him some time afterwards how his nephew was going on, he replied, that he had taken him into his own office. 'I found,' he said, 'that he was reporting arrival at 10 o'clock, and then going off until 4 o'clock, when he reported that he was leaving. This hardly seemed to me,' added my friend, 'to be good training for a youngster.'

"The second case was that of a man of extremely high character who left Government employment to become a Minister of the Gospel. He informed me that when employed by the Government he was one of five men whom he estimated did about the work of three men; 'but,' said he, 'our Chief was always agitating to get an office boy, in order to add to the apparent importance of his position.' I pause to note here that my friend was obviously not a willing loafer, and to emphasise the point that if five men did three men's work anywhere else it would be a definite person's money they were wasting and that person would be liable to find out; but in this Government office, working under monopolistic conditions, there was no natural check on this waste.

"The third case illustrates the futility of such checks as there are. This relates to the daughter of a friend who had left a bank and gone into one of the new Government offices. Her reply to the question as to how she liked it was that she got more wages for less work; indeed, she said, 'We often have nothing to do, but when the Supervisor comes round we have to look as if we had.'

"These three cases," said Mr. Walker, "all illustrate in different ways the natural tendency in Government offices to waste public money."

One can imagine what would happen if everybody became either a servant or an official director of a complete Socialist State.

Mr. Walker agreed that the examples he gave are not of universal application, and that the majority of Civil Servants are not idlers. But many of them are redundant, or engaged on non-essential work, which we don't need and can't afford. He continued:

"Now let me give you two cases only (there are many others) from our own works, of the costly results of Government planning. Before our own works can do anything at all our furnace must be lit. Once we could buy our coal where we chose, and get the best coal at the cheapest price under competitive conditions. Now we pay about 10 to 15 per cent more, and are informed what price we must pay for it by the producer.

"More serious still is a case of machinery. In 1932 we bought an essential part of our plant for £475, but to-day we are informed that an exactly similar part would cost £1,175. The increase is due to some extent to the rise in the price of steel, but much more to the fact that the few makers would now meet together, arrange who had our order, and fix the price together.

"The Government expects more from us in taxes while it plans handicaps of this grave nature. It is small wonder that the textile trade, a trade little adapted to benefit from monopoly or protection, is obviously wilting under the new conditions and that its numbers have declined disastrously in recent years."

#### SIR ROBERT HAMILTON ON TAXATION

Sir Robert Hamilton, a former Under-Secretary of State for the Colonies, moved the following resolution at the above-mentioned meeting on March 23rd, 1938:

"This meeting declares its opinion that the present high rate of income tax is indefensible in peace time, and should be reduced in order that there may be a financial reserve against emergencies. It also appeals to the House of Commons to remove or reduce without delay the new protective taxes and quotas on the necessities and comforts of life, which raise prices and lay heavy burdens on all people of small means without contributing substantially to the Revenue."

In the course of his speech, Sir Robert Hamilton said:



"The standard rate of 5s. income tax is very high and ought to be reduced. When income tax was first introduced it was 2d. or 3d., and was considered a temporary measure. It was, however, found to be such a useful and fair way of raising money that it gradually became accepted as one of the most suitable ways of obtaining revenue in a free trade country. In 1913-14 it was considered very high at 1s. 2d. During the last ten years the average income tax has worked out at about 4s. 6d., rising latterly to 4s. 9d. and 5s. The danger now is that there is no reserve to meet emergencies. The reserve power which the country had at the beginning of the war was invaluable in seeing us through the war so successfully. So far as income tax is concerned this country has practically reached its limit.

"There are two solutions to this problem. The first is a sound foreign policy. If this country had had a sound foreign policy, it would not be building aeroplanes and creating great forces to-day, and taxes would not have gone up. The second is strict economy in expenditure. Expenditure is now on so large a scale that people tend to become less careful in regard to smaller sums. Although it may not be possible at this moment to reduce income tax the Government's attention must be drawn to the essential need for economy on the part of all the spending departments."

Sir Robert deplored Mr. Chamberlain's statement that, even if all the world adopted Free Trade, this country ought to retain Protection. He pointed out the evil effects of high protective duties and oppressive restrictions. We must import food supplies, and raw materials. Hence the maintenance of our export trade is essential in order that imports might be paid for. The Chairmen of all the great Banks had exhorted merchants to increase the export trade, but manufacturers found themselves handicapped by increased costs of production due to tariffs.

"As a means of raising revenue," concluded Sir Robert Hamilton, "customs duties are very unsatisfactory. Tariffs and quotas place heavy burdens on people of small means without contributing substantially to the revenue. Let me by way of illustration take an article worth 1s., raised by a protective duty to 1s. 6d. Suppose that A buys one of these articles, home made, and pays 1s. 6d., and that B buys a similar article, imported, and also pays 1s. 6d. A and B will have paid 3s. for articles worth 2s., and the Exchequer, after the cost of collection, a heavy one, is deducted, will receive a fraction of 6d.

"I therefore commend the resolution to you in the interest of national safety and the well-being of the people."

#### MR. J. E. ALLEN ON ROADS

Mr. J. E. Allen, who also spoke at the Public Economy League meeting on March 23rd, 1938, complained that the two Oppositions in the House of Commons had neglected their constitutional duty of examining the Estimates of the spending Departments with the most rigorous scrutiny in the interests of the taxpayer. He doubted if all the proposed expenditure on re-armament was necessary, and he was quite sure that a good deal of money was being wasted. He continued:

"I now suggest a particular saving in another sphere, and shall follow it with a proposal designed to furnish the Exchequer with increased revenue. We are now spending from £50 to £60 millions a year on roads, and I contend that this is an absurdly large sum which might well be reduced by £20 millions. Most of the new roads or reconstructed roads planned by the Ministry of Transport, and financed partly out of the road fund and partly by the rate-payers, are exceedingly expensive and often most unpopular in the neighbourhood.

"Road transport is supposed to be cheap. It is not really cheap, and only seems cheap because the owners of big lorries and coaches are allowed to throw a large part of their running costs—i.e. the repair, policing, signalling and lighting of their permanent way—the road—on to the public. This is specially true of the heavier vehicles. I suggest, therefore, that the income tax principle of progressive taxation should be applied to the licence duties paid for these vehicles, i.e. that the rate per ton or per seat should increase as the size of the vehicle increases. As the weight increases, the damage to the road structure and the danger to roadside buildings increase progressively."

#### EXTRAVAGANCE AND UNEMPLOYMENT

Excessive expenditure harms not only those who are compelled to bear the direct burdens of taxation, but the country as a whole. Money diverted to the Exchequer is drained from industry; trade declines and the workers suffer through an increase in unemployment.



There are those who maintain the contrary view, and hold that an increase of State expenditure, especially if it is out of borrowed money, is beneficial to trade and employment. Actually it makes little difference whether the money is raised by taxation or by loans, for though borrowing may lead to embarrassment in the future, it is only the present stock of real wealth that can be drawn upon. As Professor Lionel Robbins wrote in *Lloyds Bank Review* for March 1938 :

"Whether extraordinary expenditure is raised by taxes or by loans, the cost of such expenditure is the sacrifice of the other things which might otherwise have been produced at the time. In the case of loans this sacrifice is borne by the lender : in the case of taxes by the taxpayer. The idea that the wealth of the society of the future can be anticipated by the simple expedient of substituting loans for taxes is a fallacy."

In this connection, an interesting passage may be quoted from *The Times Annual Financial and Commercial Review*, published on February 8th, 1938. The leading article, entitled "A Year Divided," said :

"The record of 1937 falls into two parts. Opening with economic activity, quickening even compared with the rapid progress of the preceding twelve months, the year continued to give promise of sustained improvement until about the month of April. A feeling of uncertainty then developed, which in the autumn received some justification in signs of a recession of activity in various directions."

The point to which we would draw attention is that it was in the month of April that the Chancellor of the Exchequer presented an unbalanced Budget, accompanied by a tax on business profits and loans to meet the vast expenditure on re-armament.

In the course of the year 1937, the armament programme was expedited, but despite the direct employment given in this way, and the spending of huge sums out of loans as well as taxes, there were "signs of a recession," and unemployment increased. A striking contrast is provided by the unemployment figures in the

winters of 1931 and 1937. In the former period, expenditure was being curtailed, and the Budget was being balanced ; and the total registered as unemployed fell from 2,800,000 in September 1931 (when the emergency Budget was introduced), to about 2,500,000 in the following March. But between September 1937 and March 1938, the numbers unemployed rose from 1,300,000 to 1,700,000.

These facts cannot be ignored, and confirm the common-sense view that expenditure for expenditure's sake is folly. No doubt, the best hope for a substantial reduction of expenditure and taxation lies in the successful pursuit of a pacific foreign policy, followed by an international reduction of armaments. But we must not wait upon this alone. It is of paramount importance to cut out every unnecessary new growth of expenditure in all branches of the services ; to avoid waste and extravagance in every direction ; and to diminish spending wherever this can be achieved without loss of efficiency.

This work should be done regularly, and not left for times of crisis, when it has to be undertaken hurriedly by an *ad hoc* committee. It could be performed with constant regularity and great ability by the officials of the Treasury, if they were so instructed by the Government. But the watchdog cannot act on his own ; he must be unleashed and set to work. The responsibility lies with the Government and with the House of Commons, and it should be the task of all public-spirited citizens to remind them of their duty.



# THE PUBLIC ECONOMY LEAGUE

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